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## MEMORANDUM

**FROM:** Thomas M. Morrison, Jr. **DATE:** December 9, 2002

**TO:** Board of Trustees -  
Hawaii Public Employees Health Fund

**RE:** **Quarterly Consultant's Report –  
First Quarter (07/01/2002 – 09/30/2002)**

The attached tables summarize the financial experience for Hawaii Medical Service Association (HMSA), Hawaii Dental Service (HDS), Vision Service Plan (VSP), and Royal State National Insurance. The underwriting surplus or deficits for the Plans are shown for the period July 1, 2002 through September 30, 2002.

Consistent with previous reports, the financial experience is divided between Actives and Retirees; however, due to the nature of the contracts for HDS's Children's Dental Plan and Royal State's Life Insurance benefits, their experience is included with the Actives' experience.

Additional copies have been included for the EU Trust. We look forward to reviewing this memorandum with you at your upcoming meeting.

Attachments  
#159360

cc: Bert Nishihara - Administrator  
Diane Erickson, Esq. - Deputy Attorney General  
Hawaii Employer-Union Benefit Trust

159366/00543.001

# Hawaii Public Employees Health Fund

## Summary of Experience-Rated Benefits

Plan	Actives		Retirees	
	1st Quarter 7/1/2002 through 9/30/2002	Policy Year-to-Date 7/1/2002 through 9/30/2002	1st Quarter 7/1/2002 through 9/30/2002	Policy Year-to-Date 7/1/2002 through 9/30/2002
<b>Medical-</b>				
HMSA -				
Underwriting Surplus/(Deficit)	\$ 237,935	\$ 237,935	\$ 1,663,555	\$ 1,663,555
Surplus/(Deficit) as a Percentage of Premium	1.9%	1.9%	8.6%	8.6%
<b>Prescription Drug-</b>				
HMSA -				
Underwriting Surplus/(Deficit)	\$ (121,249)	\$ (121,249)	\$ (369,094)	\$ (369,094)
Surplus/(Deficit) as a Percentage of Premium	-3.7%	-3.7%	-3.3%	-3.3%
<b>Dental-</b>				
HDS-				
Adult -				
Underwriting Surplus/(Deficit)	\$ (905,907)	\$ (905,907)	\$ (1,769,761)	\$ (1,769,761)
Surplus/(Deficit) as a Percentage of Premium	-42.7%	-42.7%	-52.8%	-52.8%
Children -				
Underwriting Surplus/(Deficit)	\$ (742,505)	\$ (742,505)	Included with Actives	Included with Actives
Surplus/(Deficit) as a Percentage of Premium	-50.9%	-50.9%		
<b>Vision-</b>				
VSP -				
Underwriting Surplus/(Deficit)	\$ (280,149)	\$ (280,149)	\$ (289,828)	\$ (289,828)
Surplus/(Deficit) as a Percentage of Premium	-54.3%	-54.3%	-48.1%	-48.1%
<b>Life Insurance-</b>				
Royal State -				
Underwriting Surplus/(Deficit)	\$ (44,728)	\$ (44,728)	Included with Actives	Included with Actives
Surplus/(Deficit) as a Percentage of Premium	-4.6%	-4.6%		

**HMSA - MEDICAL****Actives****Underwriting Surplus/(Deficit)**

	<b>1st Quarter 7/1/2002 through 9/30/2002</b>	<b>Policy Year-to-Date 7/1/2002 through 9/30/2002</b>
<b>Premium</b>	<b>\$ 12,350,030</b>	<b>\$ 12,350,030</b>
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (4,327,863)	\$ (4,327,863)
Dependent Claims (1)	(2,624,990)	(2,624,990)
Major Medical Claims (1)	(563,893)	(563,893)
Current Period's IBNR	(3,792,400)	(3,792,400)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (11,309,146)</b>	<b>\$ (11,309,146)</b>
Less:		
Retention (7.1% of Paid Claims)	(533,689)	(533,689)
Retention (7.1% of Reserves)	(269,260)	(269,260)
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ 237,935</u></b>	<b><u>\$ 237,935</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	<b>1.9%</b>	<b>1.9%</b>

(1) Includes only claims that apply to the current fiscal year.

HMSA - PRESCRIPTION DRUG		
Actives		
Underwriting Surplus/(Deficit)		
	1st Quarter 7/1/2002 through 9/30/2002	Policy Year-to-Date 7/1/2002 through 9/30/2002
<b>Premium</b>	\$ 3,291,574	\$ 3,291,574
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (1,876,499)	\$ (1,876,499)
Dependent Claims (1)	(846,220)	(846,220)
Current Period's IBNR	(452,000)	(452,000)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (3,174,719)	\$ (3,174,719)
Less:		
Retention (7.5% of Paid Claims)	(204,204)	(204,204)
Retention (7.5% of Reserves)	(33,900)	(33,900)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ (121,249)</u>	<u>\$ (121,249)</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	-3.7%	-3.7%

(1) Includes only claims that apply to the current fiscal year.

<b>HDS - DENTAL</b>  <b>Actives</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 2,122,297	\$ 2,122,297
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (1,727,917)	\$ (1,727,917)
Current Period's IBNR	(1,189,700)	(1,189,700)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (2,917,617)</b>	<b>\$ (2,917,617)</b>
Less:		
Retention (6.4% of Paid Claims)	(110,587)	(110,587)
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ (905,907)</u></b>	<b><u>\$ (905,907)</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	<b>-42.7%</b>	<b>-42.7%</b>

(1) Includes only claims that apply to the current fiscal year.

<b>HDS - DENTAL</b>  <b>Children</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 1,460,121	\$ 1,460,121
<b>Incurred Claims -</b>		
Less:		
Dependent Claims (1)	\$ (1,312,954)	\$ (1,312,954)
Current Period's IBNR	(791,200)	(791,200)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (2,104,154)</b>	<b>\$ (2,104,154)</b>
Less:		
<b>Retention (7.5% of Paid Claims)</b>	(98,472)	(98,472)
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ (742,505)</u></b>	<b><u>\$ (742,505)</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	-50.9%	-50.9%

(1) Includes only claims that apply to the current fiscal year and retiree data.

VSP - VISION		
Actives		
Underwriting Surplus/(Deficit)		
	1st Quarter 7/1/2002 through 9/30/2002	Policy Year-to-Date 7/1/2002 through 9/30/2002
<b>Premium</b>	\$ 516,381	\$ 516,381
<b>Incurred Claims -</b>		
Less:		
Claims (1)	\$ (515,306)	\$ (515,306)
Current Period's Claims Pending (1)	(28,628)	(28,628)
Current Period's IBNR	(206,122)	(206,122)
Plus:		
Prior Period's Claims Pending (1)	-	-
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (750,056)	\$ (750,056)
Less:		
Retention (9.0% of Dues Income)	(46,474)	(46,474)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ (280,149)</u>	<u>\$ (280,149)</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	-54.3%	-54.3%

(1) Includes only claims that apply to the current fiscal year.

**ROYAL STATE NATIONAL INSURANCE COMPANY**

**LIFE INSURANCE**

**Underwriting Surplus/(Deficit)**

	<b>1st Quarter 7/1/2002 through 9/30/2002</b>	<b>Policy Year-to-Date 7/1/2002 through 9/30/2002</b>
<b>Premium</b>	\$ 981,838	\$ 981,838
<b>Incurred Claims -</b>		
Less:		
Paid Claims (1)	\$ (228,508)	\$ (228,508)
Reported-Unpaid Claims (1)	(123,650)	(123,650)
Current Period's IBNR	(523,186)	(523,186)
Catastrophe Reinsurance	(61,523)	(61,523)
Conversion Charges	(6,243)	(6,243)
Plus:		
Prior Period's Reported-Unpaid Claims	-	-
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (943,110)	\$ (943,110)
Less:		
Retention (8.5% of Dues Income)	(83,456)	(83,456)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ (44,728)</u>	<u>\$ (44,728)</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	-4.6%	-4.6%

(1) Includes Retiree data.



<b>HMSA - MEDICAL</b>  <b>Retirees - With and Without Medicare</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 19,442,044	\$ 19,442,044
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (5,781,755)	\$ (5,781,755)
Dependent Claims (1)	(2,259,969)	(2,259,969)
Major Medical Claims (1)	(977,486)	(977,486)
Current Period's IBNR	(7,596,200)	(7,596,200)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (16,615,410)	\$ (16,615,410)
Less:		
Retention (7.0% of Paid Claims)	(631,345)	(631,345)
Retention (7.0% of Reserves)	(531,734)	(531,734)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ 1,663,555</u>	<u>\$ 1,663,555</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	8.6%	8.6%

(1) Includes only claims that apply to the current fiscal year.

<b>HMSA - MEDICAL</b>  <b>Retirees Without Medicare</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 8,174,195	\$ 8,174,195
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (3,224,443)	\$ (3,224,443)
Dependent Claims (1)	(1,046,555)	(1,046,555)
Major Medical Claims (1)	(430,041)	(430,041)
Current Period's IBNR	(2,558,300)	(2,558,300)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (7,259,339)</b>	<b>\$ (7,259,339)</b>
Less:		
Retention (7.0% of Paid Claims)	(329,073)	(329,073)
Retention (7.0% of Reserves)	(179,081)	(179,081)
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ 406,702</u></b>	<b><u>\$ 406,702</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	5.0%	5.0%

(1) Includes only claims that apply to the current fiscal year.

<b>HMSA - MEDICAL</b>  <b>Retirees With Medicare</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 11,267,849	\$ 11,267,849
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (2,557,312)	\$ (2,557,312)
Dependent Claims (1)	(1,213,414)	(1,213,414)
Major Medical Claims (1)	(547,445)	(547,445)
Current Period's IBNR	(5,037,900)	(5,037,900)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (9,356,071)	\$ (9,356,071)
Less:		
Retention (7.0% of Paid Claims)	(302,272)	(302,272)
Retention (7.0% of Reserves)	(352,653)	(352,653)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ 1,256,853</u>	<u>\$ 1,256,853</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	11.2%	11.2%

(1) Includes only claims that apply to the current fiscal year.

<b>HMSA - PRESCRIPTION DRUG</b>  <b>Retirees - With and Without Medicare</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 11,023,465	\$ 11,023,465
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (6,838,268)	\$ (6,838,268)
Dependent Claims (1)	(2,266,462)	(2,266,462)
Current Period's IBNR	(1,493,000)	(1,493,000)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (10,597,729)</b>	<b>\$ (10,597,729)</b>
Less:		
Retention (7.5% of Paid Claims)	(682,855)	(682,855)
Retention (7.5% of Reserves)	(111,975)	(111,975)
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ (369,094)</u></b>	<b><u>\$ (369,094)</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	<b>-3.3%</b>	<b>-3.3%</b>

(1) Includes only claims that apply to the current fiscal year.

<b>HMSA - PRESCRIPTION DRUG</b>  <b>Retirees Without Medicare</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 2,323,903	\$ 2,323,903
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (1,375,964)	\$ (1,375,964)
Dependent Claims (1)	(483,572)	(483,572)
Current Period's IBNR	(297,500)	(297,500)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (2,157,036)</b>	<b>\$ (2,157,036)</b>
Less:		
Retention (7.5% of Paid Claims)	(139,465)	(139,465)
Retention (7.5% of Reserves)	(22,313)	(22,313)
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ 5,090</u></b>	<b><u>\$ 5,090</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	0.2%	0.2%

(1) Includes only claims that apply to the current fiscal year.

<b>HMSA -PRESCRIPTION DRUG</b>  <b>Retirees With Medicare</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 8,699,562	\$ 8,699,562
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (5,462,304)	\$ (5,462,304)
Dependent Claims (1)	(1,782,890)	(1,782,890)
Current Period's IBNR	(1,195,500)	(1,195,500)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (8,440,693)	\$ (8,440,693)
Less:		
Retention (7.5% of Paid Claims)	(543,390)	(543,390)
Retention (7.5% of Reserves)	(89,663)	(89,663)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ (374,183)</u>	<u>\$ (374,183)</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	-4.3%	-4.3%

(1) Includes only claims that apply to the current fiscal year.

HDS - DENTAL		
Retirees		
Underwriting Surplus/(Deficit)		
	1st Quarter 7/1/2002 through 9/30/2002	Policy Year-to-Date 7/1/2002 through 9/30/2002
<b>Premium</b>	\$ 3,353,755	\$ 3,353,755
<b>Incurred Claims -</b>		
Less:		
Employee Claims (1)	\$ (3,067,590)	\$ (3,067,590)
Current Period's IBNR	(1,859,600)	(1,859,600)
Plus:		
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	\$ (4,927,190)	\$ (4,927,190)
Less:		
Retention (6.4% of Paid Claims)	(196,326)	(196,326)
<b>Underwriting Surplus/(Deficit)</b>	<u>\$ (1,769,761)</u>	<u>\$ (1,769,761)</u>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	-52.8%	-52.8%

(1) Includes only claims that apply to the current fiscal year.

<b>VSP - VISION</b>  <b>Retirees</b>  <b>Underwriting Surplus/(Deficit)</b>		
	<b>1st Quarter</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>	<b>Policy</b> <b>Year-to-Date</b> <b>7/1/2002</b> <b>through</b> <b>9/30/2002</b>
<b>Premium</b>	\$ 602,831	\$ 602,831
<b>Incurred Claims -</b>		
Less:		
Claims (1)	\$ (576,003)	\$ (576,003)
Current Period's Claims Pending (1)	(32,000)	(32,000)
Current Period's IBNR	(230,401)	(230,401)
Plus:		
Prior Period's Claims Pending (1)	-	-
Prior Period's IBNR	-	-
<b>Total Incurred Claims</b>	<b>\$ (838,404)</b>	<b>\$ (838,404)</b>
Less:		
<b>Retention (9.0% of Dues Income)</b>	<b>(54,255)</b>	<b>(54,255)</b>
<b>Underwriting Surplus/(Deficit)</b>	<b><u>\$ (289,828)</u></b>	<b><u>\$ (289,828)</u></b>
<b>Surplus/(Deficit) as a Percentage of Dues Income</b>	<b>-48.1%</b>	<b>-48.1%</b>

(1) Includes only claims that apply to the current fiscal year.